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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Magalie Roman Salas, Esq.
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Re: CC Docket No. 97-211
Application of WorldCom, Inc. and MCI Communications Corporation

Dear Ms. Salas:

Enclosed on behalf of WorldCom, Inc. and MCI Communications Corporation for inclusion in the above-reference docket, and in response to questions raised by Commission Staff, is an Affidavit of Dennis Kolb and the Declarations of Ronald R. Beaumont, Frank M. Grillo, and Sunit Patel. Certain portions of Mr. Kolb's Affidavit and one of its Attachments contain confidential information, which has been redacted in the enclosed copies. A complete copy of Mr. Kolb's Affidavit, including the confidential information, is being submitted separately with a request for confidential treatment pursuant to Section 0.459 of the Commission's Rules, 47 C.F.R. § 0.459.

In addition, and in further response to the Staff questions, we would like to make the following comments:

1. **Frost and Sullivan Data**

MCI and WorldCom have been asked by the Commission Staff for a response to the Frost and Sullivan data on wholesale revenues. Frost and Sullivan data has been cited by GTE's experts on several occasions. For example, Drs. Schmalensee and Taylor in their March 13, 1998 Affidavit, at pp. 20-21, cited "Estimates based on 1997 Frost and Sullivan data" as evidence that "MCI has clearly focused on the retail market" and that an apparent decline in the percentage of MCI total revenues from 1995 to 1997 "is consistent with the view that MCI is seeking to reduce its wholesale

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presence." We have been advised by Frost and Sullivan that there is no published report containing 1997 wholesale (or retail) long distance data, and that any research conducted by Frost and Sullivan for GTE on this topic would have been done as custom research on a proprietary basis. Absent access to the entire report, we cannot comment in detail on its findings or its methodologies, but the information to which we do have access – the wholesale revenues of MCI for 1997, for example – is markedly at odds with the estimates attributed to Frost and Sullivan estimates on which GTE bases its assertions.

2. Costs of Long Distance (Interexchange) Entry

MCI and WorldCom have been asked to provide further data on the costs that new entrants are likely to incur in becoming effective nationwide interexchange providers. In particular, MCI and WorldCom have been asked to describe the facilities and systems required (beyond the basic long-haul fiber) and to estimate the cost and length of time required to complete the necessary buildout.

At the outset, MCI and WorldCom wish to note that new entrants may become significant competitors well in advance of completing a planned nationwide facilities buildout. An interexchange carrier does not need a nationwide network in order to compete on either a wholesale or retail basis. Many carriers operate regionally, serving only a few cities or even a single city. Such carriers may complete calls nationwide by reselling high-capacity long distance service provided by nationwide IXCs.

A carrier entering the market for interexchange services may resell the services of other carriers. A new entrant may construct its own transmission and switching facilities in one or more regions and resell elsewhere. A facilities-based carrier in the process of a nationwide buildout may combine its own facilities with facilities leased from others or with services purchased on a wholesale basis. Both MCI and WorldCom have used a combination of these approaches, as have many other carriers. The notion that a facilities-based carrier must complete a nationwide buildout in order to be an effective competitor is mistaken.

3. Cost Estimates for Nationwide Fiber Networks

In the AT&T Non-Dominance Proceeding, estimates for the construction of a nationwide fiber optic interexchange facility approximated $3 billion in 1994 (Fertig, Ford, and Duvall 1995). Recently, Qwest Communications estimated that its construction of a national 16,000 route mile SONET four-ring fiber optic telecommunications network will cost $1.9 billion or roughly $120,000 per route mile including necessary electronics and five switches (Qwest SEC Form S4; December

22, 1997, page 9). The size of the Qwest network in route miles is consistent with the recent network expansion by IXC Communications to a coast-to-coast interexchange network company with roughly 10,000 fiber route miles and five switches (IXC SEC Form 10-K; December 31, 1996).

4. Cost Estimates for Interexchange Switching Capacity:

The cost of switching capacity varies widely depending on the number of customers served by the interexchange carrier and the traffic generated by those customers. MCI and WorldCom estimate that the cost of a long distance switch, including installation, power, building and land, ranges from $4 million to $18 million or more.

5. Availability of Billing and Other Necessary Services

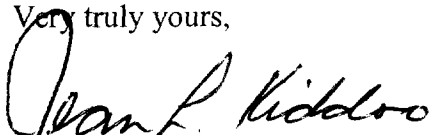
It is not necessary for a new entrant to make substantial capital investments to begin generating revenue from the initial investment. As reflected in the April 15, 1998 issue of *Phone+* previously submitted by WorldCom and MCI in a June 1, 1998 *ex parte* presentation, there are dozens of vendors of support services serving the long distance industry, providing virtually every service needed by a new entrant, ranging from billing and directory assistance services through operation and management software. Particularly in the early stages of deployment, customized switching software and sophisticated order entry and billing systems are neither necessary nor generally purchased.

6. IP- Based Networks

The foregoing discussion assumes the new entrant will opt to deploy a nationwide network on the traditional circuit-switched model, but it should be noted that several of the firms proposing to construct and operate nationwide networks (including Level 3 and GTE) have announced their intention to deploy networks using the latest in packet-switched technology. See the enclosed Affidavit of Dennis Kolb at paragraph 20 (discussing the cost advantages of new network technology) and Attachments 1 and 7 (describing new technologies in the Qwest , GTE and Level 3 networks).

I would appreciate it if you would please date-stamp the enclosed extra copy of this filing to acknowledge receipt by the Commission.

Very truly yours,



Jean L. Kiddoo

Enclosures:

cc: Michael Pryor (CCB)
Michelle Carey (CCB)
Bill Bailey (CCB)
Michael Kende (CCB)
Jennifer Fabian (CCB)
Marilyn Simon (OPP)
Matt Nagler (OPP)
Larry Blosser (MCI)

[redacted]

REDACTED VERSION

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Applications of WorldCom, Inc. for	)	
Transfers of Control of MCI	)	CC Docket No. 97-211
Communications Corporation	)	

AFFIDAVIT OF DENNIS KOLB

1. My name is Dennis Kolb. I am Vice President of Wholesale Marketing for WorldCom Network Services, Inc. My primary responsibilities include wholesale product development, market management, product pricing and expansion of the WorldCom wholesale domestic presence. Before assuming that position, I was Vice President of Technical Services for WorldCom. Before joining WorldCom, I was Vice President of Operations and Engineering for Metromedia Long Distance. Before joining Metromedia Long Distance, I held various management positions with Republic Telecom, United Telephone, On-Line Systems Inc. and Raytheon Data Systems. I have had more than three decades of experience in the telecommunications area.

2. This affidavit responds to a request for information from the Commission staff on the steps required for a telecommunications carrier to become a wholesaler in the long-distance market. In opposing the WorldCom/MCI merger application, GTE has argued that this merger will give WorldCom an incentive to curtail its present role as a supplier of wholesale long-distance capacity. In reply, WorldCom and MCI denied that the merger would alter

WorldCom's incentives to participate in the wholesale market and also argued that, if WorldCom were to withdraw, other carriers would quickly fill the gap. WorldCom and MCI pointed to several carriers who already have, or will have shortly, operational owned networks with nationwide coverage. GTE has responded by arguing that other carriers, including those owning a nationwide fiber network, are many years away from having the capability of fulfilling the role WorldCom is presently playing as a wholesale supplier.

3. Initially, I do not agree with GTE's assertion that the merger would give WorldCom an incentive to withdraw from its present role as a significant supplier of wholesale long-distance capacity. GTE's assertion that the possible fractional loss of retail sales resulting from "wholesale cannibalization" would offset the profit margin from wholesale sales is based on a calculation that places retail margins at a level approximately 10 times wholesale margins (retail margin of 2.1 cents per minute vs. 0.2 wholesale margin).[1] This calculation is based on a 1.5 cent per minute wholesale rate proposed by Sprint to one customer. (This rate may no longer be available).

Moreover, the financial markets continue to recognize that wholesale provision of long

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[1] Long Distance Reply Affidavit of Robert G. Harris, p. 38 and Exhibit 5

distance service is a profitable business, since they have provided billions of financing for the construction of new national networks by Qwest, Williams, IXC, and Frontier - - carriers that have announced business plans focusing on wholesale markets.[3] Finally, GTE itself does not believe the theory that a company with a recognized retail brand name will not also make wholesale sales. In describing the national network it is building with Qwest fiber, a GTE officer stated: "After we've satisfied our internal uses and the needs for GTE customers, we expect that we will also have additional capacity available for bulk or wholesale sales. And we're definitely interested in that business as well."[4]

4. Further, WorldCom remains committed to growing its wholesale business. Six weeks ago, we added local services to our wholesale product mix.[5] And, early in the fourth quarter of this year, we will release a new set of advanced wholesale products that have been developed expressly for one customer. Both actions confirm our intent to enrich our wholesale product

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[3] IXC Communications Inc., SEC Form 10-K, December 31, 1997, at 4; Qwest Communications International, SEC Form 10-K, December 31, 1997, at 5; Williams Co., Inc., SEC Form 10-K, December 31, 1997, at 25; Frontier Annual Report at 4.

[4] "Nortel, Cisco meet across GTE network," Lightwave, January 1998, at p. 19, reporting statement by Steve Blumenthal, vice president and general manager for global network infrastructure at GTE Internetworking. (Attachment 1). Ken Baldwin, GTE's assistant vice president of product management, was recently reported as stating that GTE's new network "will be available on a wholesale basis." ISP Business News (Phillips Publishing) (June 29, 1998). GTE anticipates excess capacity from just 24 strands of Qwest fiber, despite its expectation that it will add 1.1 million new customers by the end of 1998. See GTE Analyst Presentation, June 2, 1998, at p. 8 (Attachment 10).

[5] "WorldCom Introduces Nationwide Local Service Resale," WorldCom Press Release, May 15, 1998. (Attachment 2).

mix. It would not be financially feasible for the combined entity to walk away from the percentage of revenue that the wholesale business represents.

5. Bell Atlantic and GTE have raised issues related to the availability of advanced 800 features on a wholesale basis post merger. As with all other carriers, all telecommunications services offered by WorldCom are available for resale. Moreover, as described above, WorldCom is developing and will release this year a new set of advanced wholesale products for one customer. It has been, is, and will continue to be WorldCom's intention to provide those wholesale services, features and functions that carrier customers request, subject to technical capabilities and pricing considerations, in a timely and efficient manner. The merger could allow WorldCom to implement certain advanced features presently available on MCI's network while avoiding the expense and resource drain of developing the features from scratch. Certain of these features are being made available by WorldCom through resale of other carriers' services and the complementary nature of MCI's feature set will allow the combined company to avoid the associated lease expenses.

6. In its Ex Parte filed April 28, 1998, Bell Atlantic identified Toll Free Market Opportunit(ies) that appear to rely upon availability of enhanced 8xx features. These features are identified as Basic Routing, Traffic Reporting, IVR (Interactive Voice Response), Network Control, and Network ACD (Automatic Call Distribution). We show at Attachment 3 the current toll-free features competitive mix and the major carriers offering them. At Attachment 4 we list the carriers offering the advanced feature sets referred to by Bell Atlantic. By law, each of these services is available for resale, and WorldCom has been able to obtain wholesale marketing materials for these services from some carriers: Frontier, Sprint, LCI, and IXC.

WorldCom and MCI Ex Parte submission of June 1, 1998.

7. GTE has asserted that WorldCom is the only wholesale carrier offering to provide enhanced features as part of its wholesale offering. Its concern is that as a result of the merger MCI-WorldCom will not have the same incentives to continue providing wholesale services. I have addressed that issue in paragraph 3 of this Affidavit. As both our rebuttal Harris' margin analysis and our continuing wholesale product enhancements demonstrate, WorldCom has no incentive to shift away from providing wholesale services. We note above that WorldCom has committed contractually to provide the services requested and the implementation process is near completion. In this instance the customer has requested 8XX Menu routing, Call Answering Center, and After Hours/ Message Center Functionality.[6] The Commission staff has requested that WorldCom to provide a description of the service, functional activities to deploy the service, and approximate cost and time to completion. These issues are addressed at Attachment 5.

8. The wholesale services which GTE purchases from WorldCom are provided pursuant to a multi-year contract, including "most favored nation" price provisions, which more than protect GTE's interests in continuing to receive the same cost-effective, high quality services that it has repeatedly praised in its pleadings throughout this proceeding. Significantly, the term of the contract can be extended unilaterally by GTE, while GTE's obligations under the contract are expected by GTE to cease as of late 1999 or early 2000. Accordingly, GTE has

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6 As is mentioned each carrier request for a wholesale service is evaluated on a technical and economic basis. Carriers have requested wholesale services and opted to obtain the service from another supplier based upon these factors.

the flexibility to continue to receive services under the terms of the contract for a number of years or, as it has announced in recent press reports and analyst conferences, to migrate those services onto its own Global Network Infrastructure. That contract also commits WorldCom to continuing to work with GTE to explore whether WorldCom can provide certain additional advanced services in a similar cost-effective, high quality manner. Indeed, as discussed above, WorldCom has continued to work with GTE and other wholesale customers on these types of services since the merger with MCI was announced, and expects to provision at least one of them this coming fall. The precise terms of our customer contracts are confidential. Therefore, so that the Commission may have access to the pertinent provisions of the contract as to the protections afforded to GTE, a copy of the pages of that contract which contain the term and price protection provisions is being submitted under separate cover pursuant to the Protective Order issued by the Commission in this docket.

9. In spite of these actions and our contracts with our wholesale customers, GTE has asserted that the merger will cause WorldCom to abandon the wholesale market. The remainder of this Affidavit addresses the questions: what functionality is necessary to be a successful wholesale supplier; and whether, if WorldCom were to totally abandon its wholesale customers, competing carriers would be in a position to supply the wholesale market within the next two years.

10. GTE has listed 13 functions that it says are needed, in addition to a fiber network, to provide competitive wholesale long distance service.[7] GTE's argument seems to be that a carrier must

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[7] GTE Renewed Motion to Dismiss, at 20.

own and independently operate all the facilities involved in performing each of these functions before the carrier can become an effective competitive wholesale provider. However, each of the thirteen items on the GTE list is available by lease, to any carrier that has not yet acquired its own facilities; and in areas where a carrier neither leases nor owns facilities, it may participate in the market as a reseller. Even WorldCom does not own all the facilities it uses to provide wholesale service. WorldCom-owned transmission facilities extend to about than 55% of the LATAs.[8] To provide services in other areas, WorldCom either leases transmission facilities from or resells the services of other carriers in order to provide its reseller customers a complete nationwide package. WorldCom incorporates the services and facilities of approximately 40 other carriers and third party vendors in order to offer its nationwide wholesale package. These services and facilities include not only transmission lines, but all the associated network equipment and support services.

11. Nor is it correct to assume that carriers with lower revenue levels and different mixes of owned vs. leased facilities than WorldCom's cannot offer competitive wholesale services. A recent Atlantic ACM survey of switchless resellers' evaluation of their wholesale providers shows that a) Qwest is rated the best performer in provisioning, customer service and pricing; b) Qwest and Frontier ranked just behind the large carriers in network quality and reliability; c) LCI and IXC, as well as Qwest, scored above WorldCom in customer service; and d) AT&T, MCI, Sprint, and WorldCom were ranked at the bottom for pricing.[9] Similarly, the 1998 Atlantic ACM survey ranks Qwest highest among all wholesale suppliers with respect

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8 Second Declaration of Dennis W. Carlton and Hal S. Sider, Appendix 2.2.

9 Communications Today, January 6, 1998.

to an overall measure of customer service, with WorldCom in the middle of a tightly bunched pack.[10] These survey results refute GTE's suggestion that carriers smaller than WorldCom, with a different mix of owned vs. leased facilities, are not the suppliers of choice of many carriers obtaining wholesale services.

12. An item-by-item review of GTE's list confirms the above conclusions that the facilities and services necessary to enter the wholesale market are readily obtainable, particularly by carriers which have already built or obtained access to significant fiber networks. In particular, these facilities and services can be obtained at the same time that a carrier is constructing or otherwise obtaining use of a fiber network. Consequently, we would expect that the new or expanded transcontinental networks of Qwest, Level 3, Williams, IXC and GTE will be ready to be placed in operation within a few months, at most, from completion of any segment of network.[11]

i) Rights of way and conduits

Any carrier that already has or is near completion of a nationwide fiber network necessarily also has rights of way and conduits. For example, Qwest -- whose network is scheduled for completion in 1999 -- had 94 percent of the necessary rights-of-way as of the beginning of this year.[12] For GTE to cite this as an item needed "in addition to" the fiber network is fatuous.

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[10] Survey results reported in an article from Phone+ magazine, reproduced at http://www.phoneplusmag.com/articles/851feat3.html (Attachment 6).

[11] The Commission should not lose sight of the fact that Frontier, IXC and Qwest (through LCI) are not newcomers to the market. They are experienced carriers that have already provided wholesale service.

[12] Joint Reply of MCI and WorldCom, filed January 26, 1998, at 35.

ii) Electronic and photonic equipment to light the fiber

Each carrier with an operational nationwide fiber network necessarily has this equipment as well. In any event, this type of equipment is standardized and available off the shelf from Nortel, Lucent and dozens of other manufacturers, using standard digital technologies primarily based on the SONET industry standard. As demand for network capacity grows, the electronics necessary to convert a dark fiber network can be deployed within months. A company that has spent or will spend the sums necessary to build a nationwide fiber network (for example, as have Qwest and IXC) has presumably included in its calculations the additional sums needed to light the fiber and reach the market. It is unthinkable that it would not spend the additional sums needed to offer service, generate revenue and realize a return on its investment. We note that there are additional avenues to obtain lit facilities, including by merger or acquisition of a regional carrier, or leasing or purchasing an ownership interest in the underlying facilities. For example, Qwest has acquired LCI in part to facilitate expansion of its network in the Northeast; and GTE has leased dark fiber from Qwest and has stated that it will be using this network to provide service in 100 cities by the end of 1999.[13] As a GTE officer recently testified, it would be "foolhardy" for GTE, having spent some $600 million obtaining fiber from Qwest, not to spend the additional sums needed to provide long distance service over this network.[14]

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[13] tele.com (magazine), May 8, 1998, "QoS Questions." (Attachment 7).

[14] Testimony of Debra Covey in Application of WorldCom, Inc. and MCI Communications Corporation for Approval to Transfer Control of MCI Communications Corporation to WorldCom, Inc., Montana Public Service Commission D97.10.191, Transcript of

iii)-vi) Multiplexers and cross connects, switches, signaling systems, network control centers.

Similarly, these items are becoming increasingly standardized and available off the shelf. For example, WorldCom uses voice switches from Lucent, Nortel, Ericsson and Siemens. The typical switch can be ordered, manufactured, installed and made operational within 18 months. A company can go through this process at the same time that it constructing or leasing its fiber network. For example, GTE has purchased and is installing Nortel multiplexing equipment and Cisco switch routers at the same time that the Qwest network (a portion of which GTE acquired in May, 1997) is under construction.[15] Similarly, signaling systems may be purchased or leased from third parties. For example, SS7 signaling services are provided wholesale by companies like Transaction Network Services, Inc., GTE Intelligent Network Services, and SNET.[16]

vii-viii) Developing or leasing of POPs and purchasing or leasing transport to at least one POP in each LATA.

A POP can be leased, as can the transport to a POP if it is not owned. GTE's notion that a wholesaler must own "at least one POP in each LATA" to become competitive with WorldCom is fallacious, since WorldCom itself does not own that degree of POP coverage. WorldCom's network presently reaches less than 55% of the nation's LATAs, which conclusively answers GTE's argument that 100% owned coverage is

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Proceedings, June 2, 1998, at p. 199.

[15] "Nortel, Cisco meet across GTE network," Lightwave, January, 1998 (Attachment 1).

[16] Phone+ Magazine, April 15, 1998, at 80, 85. A copy of this magazine was included in WorldCom's submission of June 1, 1998.

needed to provide service equivalent to the service presently supplied by WorldCom.[17] WorldCom uses contracts with other carriers to extend its network to gain 100% coverage. Thus, even the larger wholesale carriers extend their networks based on a lease vs. buy/build decision. Indeed, the population coverage of 78% that will be achieved by Qwest through its owned POPs is virtually identical to the 82% achieved by WorldCom, making it clear that at least one new competitor has already almost equalled WorldCom in this aspect of wholesale coverage.[18]

ix-xi) Customized network software, order taking systems, billing systems

Network software may be purchased, and it is becoming increasingly standardized. Off-the-shelf billing systems are now targeted to the wholesale market. A recent issue of Phone+ magazine has an extensive listing of companies offering this type of service.[19] As a GTE officer recently testified, "There are a lot of companies out there who only do back office support and serving as out-sourcing agent to other companies that are facilities-based."[20]

xii) Access agreements and facilities to connect POPs to the LEC network.

Such agreements are not difficult to obtain, but have sometimes proved difficult to enforce for both existing and new competitors. In addition, if such access were not

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17 Second Declaration of Dennis W. Carlton and Hal S. Sider, Appendix 2.2.

18 Second Declaration of Dennis W. Carlton and Hal S. Sider, at p. 11 Table 1.

19 Phone + magazine, April 15, 1988, at 76-98. Dozens of suppliers are listed. A copy of this issue was included in WorldCom's submission of June 1, 1998.

20 Testimony of Debra Covey in Application of WorldCom, Inc. and MCI Communications Corporation for Approval to Transfer Control of MCI Communications Corporation to WorldCom, Inc., Montana Public Service Commission D97.10.191, Transcript of Proceedings, June 2, 1998, at p. 201.

available from the ILEC, it not only is possible, but is industry practice, to connect to ILEC networks indirectly through the networks of other wholesale carriers.

xiii) Operator services

Operator services may be purchased from companies such as Sharenet Communications Co., Opticom Operator Services, InteleCom Inc. and Consolidated Communications. WorldCom itself purchases all operator services from third parties for both its wholesale and retail offerings.

13. An example demonstrating the ability of the new fiber optic network operators to enter the long distance market as facilities-based competitors is that of Qwest Communications itself. While GTE's comments in this proceeding attempt to discount any competitive effect by Qwest on the ground that its network is not yet complete, on May 7, 1998, Qwest announced that it had been able to sign up 100,000 customers through the U S West Buyer's Advantage program in only three weeks. Qwest Press Release, Customer Demand Reaches 100,000 Mark for Buyer's Advantage Program; Offering U S WEST Local and Qwest Long-Distance Service, May 27, 1998, http://www.qwest.net/press/052798.html. That program was offered throughout the 14-state U S West region, primarily in areas where the Qwest network is not yet complete. Obviously, notwithstanding GTE's claims that a nationwide network is a prerequisite to becoming an effective facilities-based long distance competitor, Qwest has been able to "cobble together" long distance network facilities of other carriers with its own facilities to offer long distance services to a significant geographic region of the country. Moreover, on June 5, 1998, Qwest announced that it had consummated its merger with LCI International. Qwest Press Release, Qwest and LCI Consummate Merger, June 5, 1998,

http://www.qwest.net/press/0605b98.html. That merger brought to Qwest over 2 million LCI business and residential customers, and adds to Qwest's existing 8,500 miles of fiber and its additional 10,000 miles slated for completion by 2nd Quarter 1999, LCI's existing 4,500 mile fiber optic network, which is itself expanding to 8,500 miles by year end. As witnessed by its ability to provision and offer long distance services to consumers throughout the U S West 14-state region, even without the LCI merger, Qwest has been able to compete effectively in the long distance market; with the LCI merger, the combined company's effect in that market is significantly enhanced.

14. Qwest has estimated that its total cost to construct and activate the Qwest Network, and complete construction of the dark fiber sold to Frontier, WorldCom and GTE, will be approximately $2.0 billion.[21] While this estimate does not separately state the cost of activation, Qwest also stated that its estimated expenditures for 1998 and 1999 (the years in which the major portion of its network will be activated) for the purchase of electronic equipment will be approximately $92.0 million.[22]

15. Another example of a new long distance entrant's opportunity to rapidly develop and deploy facilities-based long distance services using one of the new fiber optic networks is GTE's intended use of the dark fiber it has purchased in the new Qwest Communications fiber optic network. On May 6, 1997, GTE announced that it would acquire 24 strands of dark fiber in the Qwest network which "will span 13,000 miles, connecting 92 metropolitan areas,

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[21] Qwest Communications International, Inc., Quarterly Report (SEC Form 10-Q), May 6, 1998, "Liquidity and Capital Resources." (Attachment 9).

[22] Ibid.

including Atlanta, Chicago, Los Angeles, New York, San Francisco and Washington, D.C." GTE Press Release dated 5/6/97, http://www.gte.com/g/news/050697.html. (Attachment 8) This fiber will be used by GTE to create its "Global Network Infrastructure" ("GNI"), a "nationwide fiber optic network with terabyte capacity." GTE Internetworking: 'One Big New Mother of a Network', ISP Business News, June 29, 1998. According to Ken Baldwin, GTE's Assistant Vice President of Product Management, "[t]he backbone will be available on a wholesale basis, . . . but much of GTE's voice and Internet traffic will be consolidated on the emerging 17,000-mile (by this time next year) glass highway. The aim is to enhance and integrate the company's menu of services: messaging, voice, video, and fax, all over the IP." Id.

16. It is clear that this network is intended to carry voice long distance traffic for GTE, as well as data and Internet transmission. According to Chris Brickler, Director of Enhanced IP Service for GTE's Business Development and Integration Group, "GTE intends to migrate away from the regional Bell and interexchange carrier point of view and move all local and long-distance services to a new, state-of-the-art IP network. GTE last year purchased thousands of miles of Qwest fiber strands to reach more than 100 cities with GTE-branded services by mid-1999. The IP backbone of BBN Planet Corp., also acquired by GTE last year and is now part of GTE Internetworking . . ., adds another 300 Internet points of presence for GTE. That capacity-rich, IP-centric, circuitless network will deliver QoS [quality of service bandwidth] for Internet voice, faxing, and messaging and other real-time application classes." Platforms '98, QoS Questions, tele.com magazine, http://www.teledotcom.com/0598pl/tdcpl98soaqos.html. (Attachment 7)

17. GTE's claims as to the timetable for deployment of its own facilities-based long distance services over its GNI belies its assertions that new competitors are not and will not be viable and effective long distance competitors -- wholesale and retail -- in the near term. Indeed, Mr. Clarence F. "Butch" Bercher, President of GTE Communications Corporation, stated on June 2, 1998 that one of GTE Communications' "key strategies" is to "fully utilize existing GTE assets", including "utiliz[ing] GNI as backbone" facilities. Mr. Bercher projected that "substantial traffic [will be] migrated to GNI by the end of 1999" – long before WorldCom's multi-year contract obligations to provide wholesale long distance services to GTE Communications cease. Presentation slides of Clarence F. "Butch" Bercher, GTE Analyst Conference, June 2, 1998, at p. 7 (Attachment 10).

18. GTE announced in 1996 that it was entering the long-distance business. Thus GTE will have moved from a wholly new entrant, to the position of a major facilities-based nationwide provider in less than four years, and even that time frame is being shortened by other new entrants. Obviously, companies like Qwest, Level 3, IXC, Frontier and Williams - - who are much further down the road than GTE was in 1996 - - can get there more quickly and efficiently.

19. GTE states that it took WorldCom 5-11 years to grow to its present (1997) level of wholesale revenues from the current levels of Qwest/LCI, IXC, and Frontier. But even if one assumes (contrary to fact) that carriers need to reach the present revenue level of WorldCom in order to provide effective competition, GTE's statement would require that WorldCom's business model be followed and advances in technology be ignored. GTE overlooks a) the fact that these carriers are choosing a different entry model than WorldCom used, i.e., internal growth

and merger and acquisition; b) use of technological developments which in the last five years has made entry easier. Technological development has reduced the cost of fiber per unit of capacity by orders of magnitude. In addition, as previously described, network equipment and software have become increasingly standardized, thus shortening the time it takes to become operational. Within the last 36 months, the industry has adopted SONET as the standard for optic transmission. Prior to that time, it was more difficult to interconnect optic facilities provided by different carriers. Improvements in computer technology enable network control, order-taking and billing functions, which previously (as late as 1990) required mainframes, to be performed today by smaller computers at dramatically lower cost. Improvements in fiber technology and associated equipment allow huge increases in the amount of capacity obtained per dollar of expenditure. Off-the-shelf billing systems are now targeted to the wholesale market, while WorldCom had its systems specially designed.

20. Indeed, the ability to acquire new networks entirely using new technology gives new entrants certain advantages. Level 3's James Crowe estimates that its network will cost less than 10 percent the price of traditional lines, and concludes that "being an incumbent means having a more difficult time than a new entrant."[23] A Qwest officer has stated that "One of the things that we view as a tremendous advantage is not being burdened by legacy infrastructure."[24] GTE's witness Harris reached the same conclusions in a recent presentation to the Minnesota Public Service Commission, where he said that "[n]ew entrants can deploy best available

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[23] Business Week (April 6, 1998) at 97.

[24] See 3 *tele.com* No. 5 (magazine, April 15, 1998 issue) (copy attached to WorldCom submission of June 1, 1998).

technologies without the constraints of embedded technologies."[25] New entrants are choosing digital packet switching and data internetworking. While circuit switched technology will remain viable for voice services for many more years, these new technologies have an inherent advantage over circuit switched technology for information/data services. While a legacy carrier may still be able to upgrade more quickly than a new carrier that has to, among other things, negotiate rights of way and franchise agreements, the new entrants still have a significant edge over the time it took incumbent carriers to reach their present position.

21. An implicit assumption in GTE's 13-item listing is that in order to become competitive in the wholesale market, a carrier has to provide all 13 items on a national basis over owned facilities, and thus regional carriers cannot be effective competitors in the wholesale market. GTE also implies that resellers prefer to deal with a single wholesaler. However, that is not true. In fact, to our knowledge, a large number of WorldCom's wholesale customers do not rely exclusively on WorldCom, but instead employ a multiple vendor strategy. For example, some of our reseller customers use different wholesale suppliers to provide service in different states, while others use different wholesale suppliers for different products (e.g., 1+ dialing, private line, etc.). Indeed, WorldCom itself leases transport and other facilities in areas its own network does not reach, such as Montana and West Virginia. For that reason, regional carriers can become competitive by providing wholesale services that do not cover the whole spectrum on a nationwide basis.

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[25] Dr. Robert G. Harris, "The Dynamics of Competition in Telecommunications," A presentation to the Minnesota Public Utilities Commission, October 8, 1997, at 49. Dr. Harris also observed: "Rapid innovation turns existing assets into liabilities through technological obsolescence, compounded by backward-looking depreciation rates." Ibid.

22. New wholesale networks are better suited initially to serving residential and small and medium sized business customers. As these networks grow, they become more robust and well suited to serve large, more sophisticated customers. This is precisely the route to market that WorldCom has followed - first by providing high quality and low cost "standard" services, then adding (as we are now) additional functionality. This process will be hastened by the proposed merger.

23. This entry strategy also well serves the expansion plans of new regional carriers. Today, nearly 30 regional fiber networks both compete against and supplement the facilities and services offered by eight operating and two planned transcontinental networks.[26] These regional carriers often are created to serve intrastate needs, e.g., South Dakota Network (SDN), Carolina Fiber Network (CFN), but expand by entering interconnection and facility swap agreements with adjacent regional carriers. So, now customers of Touch America in Montana can be connected to customers in Chicago via SDN, MEANS and Norlight.[27] Or AEP Communications customers in Canton, OH can connect to customers in Dallas or Miami via facilities provided by Valley Net, CFN, or Interstate FiberNet.[28] As these business relationships grow, the connecting carriers may decide to build joint facilities or merge. In any event, they can share common "back office" capabilities. WorldCom itself grew from a reseller by acquiring first other resellers then facility-based providers. There is no reason to believe these paths to growth are foreclosed to any new entrant.

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[26] "North American Fiber Long-Haul Routes, Planned and In Place," KMI Corp., New Port, R.I.

[27] Regional Network Map, South Dakota Network, Inc. (Attachment 11)

[28] CFN FiberNet, Regional Network Map (Attachment 12).

I hereby swear, under penalty of perjury, that the foregoing is true and correct, to the best of my knowledge and belief.

Dennis Kolb

Dennis Kolb

Subscribed and sworn to before me this 7th day of July, 1998.

Notary Public Deanna L. Hensley

My Commission Expires 8-17-98

ATTACHMENTS

1. "Nortel, Cisco meet across GTE network," Lightwave, January, 1998

2. WorldCom Press Release on Local Service Resale May, 15, 1998

3. Toll-Free Features Competitive Matrix

4. Table of Company & Products

5. Wholesale Services - Advanced Features

6. Phone+ Magazine article on Resellers' survey

7. Tele.com article, May 5, 1998, "Qos Questions."

8. GTE Press Release, May 6, 1997

9. Quest Form 10-Q, May 6, 1998

10. GTE Analyst Conference Slide Presentation, June 2, 1998

11. Regional Network Map, South Dakota Network, Inc.

12. CFN FiberNet, Regional Network Map

ATTACHMENT 1

"Nortel, Cisco meet across GTE network," Lightwave, January, 1998.